

This teaching package consists of three teaching notes I prepared for a MBA class (FINC460 – Investment) at Kellogg School of Management. Each teaching note is available in PDF format and is accompanied by an Excel file containing all the necessary data and calculations. A brief introduction for each teaching note is provided below.

- **Teaching Note on Convertible Bonds**

(See *TeachingNote\_ConvertibleBonds.pdf* and *CBcalculator.xls*)

This teaching note briefly discusses various aspects of a convertible bond, including its main features, trading, pricing and hedging. The Excel file contains a convertible bond calculator which handles convertible bonds with reasonable complexity (such as call and put features). The teaching note also contains a step-by-step guide of using this calculator in hedging a real-life convertible bond.

- **Teaching Note on Black-Litterman (1992) Model**

(See *TeachingNote\_Black-Litterman.pdf* and *Black-Litterman-example.xls*)

Black and Litterman (1992) offer a way to incorporate investor's views into asset pricing. This teaching note first reviews their model, and then works out a real-life example. This example is based on a Wall Street Journal article (dated Jan 11, 2005) in which top Wall Street firms expressed their views on the markets for the year 2005. A step-by-step guide demonstrates how to adapt your portfolio allocation decision to these experts' views quantitatively. All the necessary data and calculations are contained in the Excel file.

- **Teaching Note on Factor Model with a View**

(See *TeachNote\_FactorwView.pdf* and *factorwview.xls*)

This teaching note is designed as a tutorial which consists of questions and answers. The main objective is to demonstrate how to adjust portfolio allocation decision in response to a higher oil price forecast using a factor model. By walking through this teaching note, the students should achieve a better understanding of the factor model, regression analysis, portfolio optimization (with constraints), performance evaluation and the CAPM. All the necessary data and calculation are contained in the Excel file.